



NEWS RELEASE

CALIFORNIA STATE TREASURER PHIL ANGELIDES

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TREASURER ANGELIDES ANNOUNCES NAMES OF INVESTMENT BANKS AND BROKER/DEALERS THAT COMPLY WITH NEW STANDARDS OF FINANCIAL CONDUCT DESIGNED TO PROTECT INVESTORS, TAXPAYERS AND PENSIONERS

*Three Banks & Broker/Dealers Warned to Comply by March 31
Or Risk Being Suspended From Doing Business With the State*

SACRAMENTO, CA – State Treasurer Phil Angelides today announced that 41 investment banks and broker/dealers now comply with the Treasurer's Office Investment Protection Standards – a mandatory code of financial conduct that the Treasurer imposed last year to protect investors, taxpayers and pensioners.

The Treasurer today also said that he has notified three currently non-compliant financial institutions that they will be suspended from doing business with the State unless they can certify by March 31 that they are in compliance.

The Investment Protection Standards are based on the reforms contained in the settlement reached last year by New York State Attorney General Eliot Spitzer, the U.S. Securities and Exchange Commission and 10 major investment banks. Angelides extended the reach of that settlement to all investment banks and broker/dealers that do business with the State of California.

"These new Investment Protection Standards have set new market standards for investment banks across the country," Angelides said. "These standards will help put an end to the destructive marketplace abuses that have rocked our nation's financial markets and left taxpayers and investors to pick up the pieces."

The Treasurer's Office also announced the creation of a page on its website (www.treasurer.ca.gov/Corporate_Reform) that will list those financial institutions that comply and those that do not comply with the Investment Protection Standards.

The Treasurer's Investment Protection Standards require, among other things, that investment banking firms and broker/dealers that want to do business with California separate entirely their research and investment banking practices, including physical separation and completely separate lines of command, budgeting, and legal and compliance staffs. Firms also are required to create "firewalls" between research and investment banking, reasonably designed to prohibit improper communications between the two.

“As we develop and institute bold, new initiatives on such key issues as financial codes of conduct,” Angelides said, “we continue to raise the bar nationwide to restore integrity to our financial markets, protect investors and boost the investor confidence needed for economic recovery.”

After the Treasurer announced the Investment Protection Standards last May, the Treasurer’s Office directed investment banks and broker/dealers that wanted to do business with the State to submit their compliance plans by October 1. At the time, the Treasurer’s Office asked 69 firms eligible to handle the state’s bond and note issuance, and 57 broker/dealer firms eligible to do business with the State’s investment fund, to submit compliance plans. The Treasurer’s Office determined that 44 of those firms engage in both research and investment banking, which triggered the required compliance with the Standards.

Of those 44 firms, 41 are now in compliance (see attached list). The Treasurer today also announced that he has sent sanction letters to the three firms that are not in compliance. In the letters, the Treasurer warns the firms – CIBC World Markets Corp.; Edward Jones; and Wedbush Morgan Securities – that they will be suspended from doing business with the Treasurer’s Office unless they make the necessary corrections to comply by March 31. Since 1999, the three have been members of underwriting teams that participated in at least \$26.2 billion in bond sales and, in addition, CIBC has since 1999 done more than \$6.2 billion worth of securities transactions with the Treasurer’s Office.

Eligibility to do business with the Treasurer’s Office and the State of California has significant ramifications. As State Treasurer, Angelides manages the State’s Pooled Money Investment Account (PMIA), which holds more than \$52 billion in taxpayer funds and, during the last full fiscal year (2002-03), completed 3,062 securities transactions worth nearly \$142 billion. The Treasurer’s Office also selects the investment banks to handle the State’s bond and note issuance. In 2003, the Treasurer’s Office oversaw the issuance of a record \$34.4 billion in bonds and notes.

In addition, Angelides – because he is State Treasurer – sits on the governing boards of the California Public Employees’ Retirement System (CalPERS) and the California State Teachers’ Retirement System (CalSTRS), the nation’s largest and third-largest public pension funds, respectively, with combined assets of nearly \$278 billion. CalSTRS approved the Standards last July and CalPERS approved them last August. Both pension funds are now in the process of implementing the Investment Protection Standards with the investment banks and broker/dealers with whom they do business.

Attachments available on the Treasurer’s website (www.treasurer.ca.gov):

- Investment Protection Standards
- List of companies in compliance with Investment Protection Standards
- List of companies sent a notice of suspension letter

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California State Treasurer's Office Investment Protection Standards

www.treasurer.ca.gov/Corporate_Reform

In May 2003, Treasurer Phil Angelides announced a set of Investment Protection Standards to protect investors, taxpayers, and pensioners by setting new minimum standards of financial conduct for investment banks and broker/dealers that do business with the State of California. The following firms comply with the Investment Protection Standards:



A.G. Edwards & Sons, Inc.	Keefe, Bruyette & Woods, Inc.
Banc of America Securities LLC	Lehman Brothers
Banc One Capital Markets, Inc.	Loop Capital Markets
Bear Stearns & Co., Inc.	Merrill Lynch & Co.
Blaylock & Partners, L.P.	Morgan Keegan & Co., Inc.
BNY Capital Markets, Inc.	Morgan Stanley
Cabrera Capital Markets, Inc.	O'Connor Southwest Securities
Chatsworth Securities LLC	Ramirez & Co., Inc.
Citigroup Global Markets, Inc.	Raymond James & Associates, Inc.
Comerica Securities	RBC Dain Rauscher
Credit Suisse First Boston Corporation	Redwood Securities Group, Inc.
D.A. Davidson & Company	Sandler O'Neill & Partners, LP
E.J. De La Rosa & Co., Inc.	SBK-Brooks Investment Corp.
First Albany Corporation	UBS Securities LLC
Gardner Rich & Company	US Bancorp Piper Jaffray
Goldman, Sachs & Co.	Vining Sparks
Guzman & Company	Wachovia Capital Markets, LLC
HSBC Securities (USA) Inc.	Wells Fargo Securities LLC
J.P. Morgan	William R. Hough & Co.
Jackson Securities Incorporated	Williams Capital Group, LP
Janney Montgomery Scott LLC	

California State Treasurer's Office Investment Protection Standards

Companies Not In Compliance (as of March 9, 2004)

CIBC World Markets Corp.: CIBC's submission "fails to comply with all of the Standards," according to a non-compliance letter from Treasurer Phil Angelides. Since January 1999, CIBC has been a member of underwriting teams that have participated in the sale of more than \$26.2 billion in state bonds. In addition, since the 1999-2000 fiscal year, CIBC has done more than \$6.2 billion worth of securities transactions with the Treasurer's Office.

Edward Jones: Edward Jones' submission fails to comply with the standard that requires the firm to make publicly available, via its website, certain information regarding its research reports, according to the Treasurer's letter. Since January 1999, Edward Jones has been a member of underwriting teams that have participated in the sale of \$1.8 billion in state bonds.

Wedbush Morgan Securities: Wedbush Morgan "has failed to provide responses to the [Treasurer's Office] questionnaire or relevant provisions of" the firm's policies, according to the Treasurer's letter. Since January 1999, Wedbush Morgan Securities has been a member of underwriting teams that have participated in the sale of more than \$3.5 billion in state bonds.

STATE TREASURER'S OFFICE

INVESTMENT PROTECTION STANDARDS

Effective July 1, 2002, The State Treasurer of California imposed a set of Investment Protection Principles (hereinafter “the Principles”) on every financial organization that provides investment-banking services and is retained or utilized by the State of California. The Principles were originally based on the terms of the agreement between Merrill Lynch & Co., Inc. and New York State Attorney General Eliot Spitzer dated May 21, 2002. On April 28, 2003, the New York Attorney General, the Securities and Exchange Commission, the New York Stock Exchange, NASD, and the North American Securities Administrators Association announced a settlement with ten of the nation’s largest investment firms (hereinafter “the Global Settlement”), the terms of which significantly reduce the conflicts of interest between Research and Investment Banking (as those terms are defined in the Global Settlement). Accordingly, the State Treasurer has modified Part A of the Principles to incorporate the relevant terms of the Global Settlement and has elevated such Principles to mandatory Standards (hereinafter “the Standards”) for all financial organizations, as previously defined by this Office. Effective May 8, 2003, the State Treasurer’s Office has adopted as a minimum requirement that all firms doing business with this Office must comply with the Standards. Firms had until October 1, 2003 to submit policies and plans regarding compliance with the Standards. A list of companies in compliance is available on the Treasurer’s website ([www.treasurer.ca.gov/Corporate Reform](http://www.treasurer.ca.gov/Corporate_Reform)), and will be updated regularly.

The Investment Protection Standards include, but are not limited to, the following:

- Severing the link between compensation for analysts and Investment Banking.
- Completely separating Research and Investment Banking, including physical separation. Research will not report directly or indirectly to or through Investment Banking.**
- Requiring that Research have its own dedicated legal and compliance staff.**
- Requiring firms to create and enforce firewalls reasonably designed to prohibit all communications between Research and Investment Banking.**
- Prohibiting Research from participating in efforts to solicit investment-banking business. Analysts may not participate in “pitches” or Investment Banking sponsored road shows.**
- Prohibiting Investment Banking input into analyst compensation.
- Establishing written criteria (exclusive of Investment Banking input) to be used for compensation decisions.**

-Compensating analysts in significant part based on the quality and accuracy of their work.

-Investment Banking shall have no input into an analyst's evaluation.

-Decisions concerning compensation shall be documented.

-Creating a review committee to approve all research recommendations.

-The review committee will review all changes in ratings, if any, and material changes in price targets, if any, contained in the firm's research reports.

-The review committee will conduct periodic reviews of research reports to determine whether changes in ratings or price targets, if any, should be considered.

-The review committee will monitor the overall quality and accuracy of the firm's research reports.

-Requiring that upon discontinuation of research coverage of a company, firms will disclose the coverage termination and the rationale for such termination.

-Prohibiting Investment Banking input into company-specific coverage decisions (i.e., whether or not to initiate or terminate coverage of a particular company in research reports furnished by the firm).

-Disclosing in research reports whether the firm has received or is entitled to receive any compensation from a covered company over the past 12 months.

-Each quarter, firms shall publish on their websites a chart showing their analysts' performance, including each analyst's name, ratings, price targets, and earnings per share forecasts for each covered company, as well as an explanation of the firm's rating system.

-Establishing a monitoring process to ensure compliance with the principles.

-Each firm shall conduct an annual review to provide reasonable assurance that the firm is in compliance.

-The State Treasurer's Office reserves the right to request an independent audit or confirmation of compliance with these Standards, and, in the case of those firms party to the Global Settlement, a copy of the report prepared by the Independent Monitor.

Notes: (1) The provisions in **bold** represent new requirements not previously contained in the Investment Protection Principles adopted in July 2002.

(2) Upon approval by the State Treasurer's Office of a firm's plan or policy, these Standards are to be implemented consistent with the timeframes established in the Global Settlement. In submitting plans, a firm may propose a specific alternative method for complying with one or more of the Standards, which will be considered only if such alternative method is consistent with the intent of the Standards and achieves the same substantive objective.